

CITY OF ADAIR
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

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City of Adair

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kelby Harris	Mayor	January 2012
Larry Ludwig	Council Member	January 2012
Craig Wedenmeyer	Council Member	January 2012
Jim Zimmerline	Council Member	January 2012
Patty Bauer	Council Member	January 2014
Pat Kelsey	Council Member	January 2014
Michelle King	City Clerk	Indefinite
Beverly Wild	Attorney	Indefinite

City of Adair



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

January 21, 2012

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adair, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Adair's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adair as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

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Independent Auditors' Report
City of Adair

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 21, 2012 on our consideration of the City of Adair's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Adair's basic financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schroer & Associates, P.C.

MANAGEMENT' S DISCUSSION AND ANALYSIS

The City of Adair provides this Management' s Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities are for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City' s financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparison will be more meaningful and will go further in explaining the City' s financial position and results of operations.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City' s governmental activities were approximately \$2,107,000 in fiscal 2011, which includes, among other items, \$427,000 from property tax, and \$865,000 in note proceeds.

Disbursements were approximately \$1,990,000 in fiscal 2011. Public safety was \$123,416, public works were \$160,987, culture and recreation disbursements were \$68,578, economic development was \$8,739, general government disbursements were \$146,927, debt service was \$39,322 and capital projects were \$1,442,972.

The City' s total cash basis net assets increased 17.6% or approximately \$167,379 from June 30, 2010, to June 30, 2011. Of this amount, the assets of the governmental activities increased \$117,438 and the assets of the business type activities increased \$49,941.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management' s Discussion and Analysis introduce the basic financial statements and provide an analytical overview of the City' s financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City' s finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City' s operation in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary information further explains and supports the financial statements with a comparison of the City' s budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the city as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer system and garbage services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provided a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for government funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water, sewer, and garbage funds, all considered major funds of the City.

The required financial statements for propriety funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$117 thousand to \$820 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
		<u>Yr Ended June 30, 2011</u>
Receipts		
Program Receipts:		
Charges for service	\$	17
Operating grants, contributions and restricted interest		123
Capital grants, contributions and restricted interest		592
General receipts:		
Property tax		427
Local option sales tax		72
Grants and contributions not restricted to specific purposes		7
Unrestricted investment earnings		1
Bond proceeds		865
Other general receipts		3
Total receipts		<u>2,107</u>
Disbursements:		
Public safety		123
Public works		161
Culture and recreation		69
Community and economic development		8
General government		147
Debt service		39
Capital Projects		<u>1,443</u>
Total disbursements		<u>1,990</u>
Increase in cash basis net assets		117
Cash basis net assets beginning of year		<u>703</u>
Cash basis net assets end of year	\$	<u>820</u>

The City's total receipts for governmental activities were approximately \$2,107,000.

The cost of all governmental activities this year was approximately \$1,990,000. However as shown in the Statement of Activities and Net Assets on pages 15 and 16, the amount taxpayers ultimately financed for these activities was approximately \$1,259,000 because some of the cost was paid by other governments and organizations that subsidized certain programs with grants contributions and restricted interest.

Approximately \$17 thousand was paid by those who directly benefited from the programs, and \$715,000 from operating and capital grants. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$427 thousand in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements, and \$865,000 in note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities	
(Expressed in Thousands)	
	<u>Year Ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 233
Sewer	163
Garbage	74
General receipts:	
Unrestricted interest on investments	2
Miscellaneous	<u>15</u>
Total Receipts	487
Disbursements:	
Water	204
Sewer	173
Garbage	60
Total Disbursements	<u>437</u>
Increase in cash balance	50
Cash basis net assets beginning of year	<u>245</u>
Cash basis net assets end of year	\$ <u>295</u>

Total business type activities receipts for the fiscal year \$487 thousand. The cash balance increased by \$50,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Adair completed the year, its governmental funds report a combined fund balance of \$820,418, an increase of more than \$117,000 above last year's total of \$702,980. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance decreased \$97,138 from the prior year to \$342,946 due to street costs paid out of this fund instead of the Road Use Fund and additional costs for wages, audit and legal fees due to fraud committed by a former employee.

The Local Option Sales Tax Fund increased by \$72,733 to \$358,460 since there were no expenditures this year.

The Capital Projects Funds cash balance increased by \$70,363 to 3,874 during the fiscal year. This was due to the timing of some of the expenditures and receipts for same, and note proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased \$38,613 to \$213,268.

The Sewer Fund cash balance decreased by \$2,941 to \$28,035.

The Garbage Fund cash balance increased by \$14,269 to \$53,301.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amount of the amendment decreased budgeted disbursements by \$1,254,810, due to a clerical error.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$1,929,000 in bonds and other long-term debt compared to approximately \$1,150,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)			
		<u>June 30</u>	
		<u>2011</u>	<u>2010</u>
General obligation bonds and notes	\$	254	209
Revenue notes		<u>1,675</u>	<u>941</u>
Total	\$	<u>1,929</u>	<u>1,150</u>

Debt increased as a result of issuing general obligation notes of \$81,348 and sewer revenue notes of \$795,091.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$254,000 is significantly below its constitutional debt limit of \$1,875,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Adair's elected and appointed official and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities. Property tax and utility rate increases were considered to help defray expenses. The City has added no major new programs. The City continues to try to control spending.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michelle King, City Clerk, Audubon Street, City of Adair, Iowa.

City of Adair

Basic Financial Statements

City of Adair
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2011

			Program
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 123,416	195	4,282
Public works	160,987	-	103,858
Culture and recreation	68,578	16,035	15,192
Community and economic development	8,739	-	-
General government	146,927	975	-
Debt service	39,322	-	-
Capital projects	1,442,972	-	-
Total governmental activities	1,990,941	17,205	123,332
Business type activities:			
Water	203,972	232,414	3,087
Sewer	172,860	163,037	-
Garbage	59,926	74,103	-
Total business type activities	436,758	469,554	3,087
Total	\$ 2,427,699	486,759	126,419
General Receipts:			
Property tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Note proceeds			
Redemption of note proceeds			
Miscellaneous			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
Streets			
Capital projects			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements

Receipts	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
Capital Grants, Contributions and Restricted Interest			
-	(118,939)	-	(118,939)
-	(57,129)	-	(57,129)
-	(37,351)	-	(37,351)
-	(8,739)	-	(8,739)
-	(145,952)	-	(145,952)
-	(39,322)	-	(39,322)
591,557	(851,415)	-	(851,415)
591,557	(1,258,847)	-	(1,258,847)
-	-	31,529	31,529
-	-	(9,823)	(9,823)
-	-	14,177	14,177
-	-	35,883	35,883
591,557	(1,258,847)	35,883	(1,222,964)
\$	300,306	-	300,306
	34,770	-	34,770
	92,267	-	92,267
	72,419	-	72,419
	7,324	1,560	8,884
	1,453	1,890	3,343
	957,098	-	957,098
	(92,400)	-	(92,400)
	3,048	10,608	13,656
	1,376,285	14,058	1,390,343
	117,438	49,941	167,379
	702,980	244,933	947,913
\$	820,418	294,874	1,115,292
\$	28,452	-	28,452
	358,460	-	358,460
	3,874	-	3,874
	86,686	-	86,686
	342,946	294,874	637,820
\$	820,418	294,874	1,115,292

City of Adair
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2011

	General	Special Revenue Local Option Sales Tax	Capital Projects
Receipts:			
Property tax	\$ 209,966	-	-
Tax increment financing collections	-	-	-
Other city tax	33,307	72,419	-
Licenses and permits	1,170	-	-
Use of money and property	22,329	314	-
Intergovernmental	17,318	-	591,557
Charges for service	3,727	-	-
Miscellaneous	11,710	-	-
	<u>299,527</u>	<u>72,733</u>	<u>591,557</u>
Disbursements:			
Operating:			
Public safety	103,717	-	-
Public works	126,046	-	-
Culture and recreation	68,350	-	-
Community and economic development	8,739	-	-
General government	122,840	-	-
Debt service	-	-	-
Capital projects	-	-	1,442,972
Total disbursements	<u>429,692</u>	<u>-</u>	<u>1,442,972</u>
Excess (deficiency) of receipts over (under) disbursements	(130,165)	72,733	(851,415)
Other financing sources (uses):			
General obligation note proceeds	33,000	-	48,348
Sewer revenue note proceeds	-	-	875,750
Redemption of sewer note proceeds	-	-	(92,400)
Operating transfers in	27	-	90,080
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>33,027</u>	<u>-</u>	<u>921,778</u>
Net change in cash balances	(97,138)	72,733	70,363
Cash balances beginning of year	<u>440,084</u>	<u>285,727</u>	<u>(66,489)</u>
Cash balances end of year	\$ <u>342,946</u>	<u>358,460</u>	<u>3,874</u>
Cash Basis Fund Balances			
Nonexpendable:			
Cemetery perpetual care	\$ -	-	-
Restricted for:			
Streets	-	358,460	-
Capital projects	-	-	3,874
Other purposes	-	-	-
Unassigned	<u>342,946</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	\$ <u>342,946</u>	<u>358,460</u>	<u>3,874</u>

See notes to financial statements

Other Nonmajor Governmental Funds	Total
89,516	299,482
92,267	92,267
2,287	108,013
-	1,170
30	22,673
95,373	704,248
-	3,727
391	12,101
<u>279,864</u>	<u>1,243,681</u>
19,699	123,416
34,941	160,987
228	68,578
-	8,739
24,087	146,927
39,322	39,322
-	1,442,972
<u>118,277</u>	<u>1,990,941</u>
161,587	(747,260)
-	81,348
-	875,750
-	(92,400)
-	90,107
(90,107)	(90,107)
<u>(90,107)</u>	<u>864,698</u>
71,480	117,438
43,658	702,980
<u>115,138</u>	<u>820,418</u>
28,452	28,452
-	358,460
-	3,874
86,686	86,686
-	342,946
<u>115,138</u>	<u>820,418</u>

City of Adair
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2011

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 232,414	163,037	74,103	469,554
Operating disbursements:				
Business type activities	181,062	112,420	59,926	353,408
Excess of operating receipts over operating disbursements	51,352	50,617	14,177	116,146
Non-operating receipts (disbursements):				
Intergovernmental	3,087	-	-	3,087
Interest on investments	1,246	552	92	1,890
Rent	1,560	-	-	1,560
Miscellaneous	4,278	6,330	-	10,608
Debt service	(22,910)	(60,440)	-	(83,350)
Total non-operating receipts (disbursements)	(12,739)	(53,558)	92	(66,205)
Net change in cash balances	38,613	(2,914)	14,269	49,941
Cash balances beginning of year	174,655	31,246	39,032	244,933
Cash balances end of year	\$ 213,268	28,305	53,301	294,874
Cash Basis Fund Balances				
Unrestricted	\$ 213,268	28,305	53,301	294,874

See notes to financial statements

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies

The City of Adair is a political subdivision of the State of Iowa located in Adair County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Adair has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Adair County Assessor's Conference Board, Guthrie County Landfill Commission and the Adair Community Fire Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for receipts from tax authorized by referendum to be used for street improvements.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through the Enterprise Funds.

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Garbage Fund accounts for the operation of the City's solid waste disposal.

C. Measurement Focus and Basis of Accounting

The City of Adair maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursed grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, capital projects and business type functions.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2009, to compute the amounts which became liens on property on July 1, 2010. These taxes were due and payable in two installments on September 30, 2010 and March 31, 2011, at the Adair and Guthrie County Treasurer's Offices. These taxes are recognized as income to the City when they are received from the county.

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposits, totaled \$1,115,292 at June 30, 2011.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3, as amended by Statement No. 40.

Interest rate risk - The City's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 45,840	11,260	92,385	50,585	138,225	61,845
2013	48,777	9,257	111,470	47,635	160,247	56,892
2014	50,605	7,139	94,000	44,151	144,605	51,290
2015	41,356	5,006	98,000	41,331	139,356	46,337
2016	36,216	2,985	100,000	38,391	136,216	41,376
2017-2021	31,588	2,505	554,000	144,765	585,588	147,270
2022-2026	-	-	456,000	61,905	456,000	61,905
2027-2029	-	-	169,691	8,463	169,691	8,463
	<u>\$ 254,382</u>	<u>38,152</u>	<u>1,675,546</u>	<u>437,226</u>	<u>1,929,928</u>	<u>475,378</u>

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (3) Bonds and Notes Payable- Continued

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$1,875,000 which was not exceeded during the year ended June 30, 2011.

Revenue Notes – The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$924,000 in sewer revenue notes issued in June 2003, and \$1,250,000 issued in February 2011. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2029. Annual principal and interest payments on the notes are expected to require less than 100 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$2,070,854. For the current year, principal and interest paid and total customer net receipts were \$60,440 and \$50,617, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$180,000 in water revenue notes issued in April 2004. Proceeds from the notes provided financing for the construction of water main extensions. The notes are payable solely from water customer net receipts and are payable through 2013. Annual principal and interest payments on the notes required less than 45 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$41,918. For the current year, principal and interest paid and total customer net receipts were \$22,910 and \$51,352, respectively.

The resolutions providing for the issuance of the revenue notes include the following provision:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account within the Sewer Enterprise Fund for the purpose of making the 2011 sewer revenue note principal and interest payments when due.

The Enterprise Fund, Sewer Account had insufficient net receipts to cover the debt payments. The City did not establish the required sewer revenue note sinking account, therefore the City is not in compliance with the above resolutions.

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered payroll. Certain employees in special risk occupations, and the City, contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 was \$15,113, equal to the required contribution for the year.

NOTE (5) Other Postemployment Benefits (OPEB)

Plan description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 4 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$630 for single coverage and \$979 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, there were no plan members eligible for benefits.

NOTE (6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2011, primarily relating to the General Fund was \$4,436. This liability has been computed based on rates of pay in effect at June 30, 2011.

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Urban Renewal Tax Increment	\$ 27
Capital Projects	Special Revenue: Urban Renewal Tax Increment	<u>90,080</u>
		<u>\$ 90,107</u>

NOTE (8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$24,128 during the year ended June 30, 2011.

NOTE (9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (10) Commitments

Mowing Contract – The City has contracted for mowing services for \$22,700 per year through April 2012.

Sanitation Contract – The City has contracted for solid waste disposal and recycling through June 30, 2012, for approximately \$3,400 a month.

NOTE (11) Construction Commitments

At June 30, 2011, the City had the following construction commitments:

	<u>Estimated Contract Amount</u>	<u>Paid to Date</u>	<u>Remaining Commitment</u>	<u>Retainage Payable</u>
Sanitary Sewer Construction	\$ 2,039,999	1,352,009	687,990	76,465

City of Adair
Notes to Financial Statements
June 30, 2011

NOTE (13) Accounting Change/Restatement

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>General</u>	<u>Special Revenue Emergency Levy</u>
Balances June 30, 2011, as previously reported	\$ 437,172	2,912
Change in fund type classification per implementation of GASB Statement No. 54	<u>2,912</u>	<u>(2,912)</u>
Balances July 1, 2011, as restated	\$ <u>440,084</u>	<u>-</u>

Required Supplementary Information

City of Adair
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property tax	\$ 299,482	-
Tax increment financing collections	92,267	-
Other city tax	108,013	-
Licenses and permits	1,170	-
Use of money and property	22,673	3,450
Intergovernmental	704,248	3,087
Charges for service	3,727	469,554
Miscellaneous	12,101	10,608
Total receipts	<u>1,243,681</u>	<u>486,699</u>
Disbursements		
Public safety	123,416	-
Public works	160,987	-
Culture and recreation	68,578	-
Community and economic development	8,739	-
General government	146,927	-
Debt service	39,322	-
Capital projects	1,442,972	-
Business type activities	-	436,758
Total disbursements	<u>1,990,941</u>	<u>436,758</u>
Excess (deficiency) of receipts over (under) disbursements	(747,260)	49,941
Other financing sources, net	<u>864,698</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	117,438	49,941
Balances beginning of year	<u>702,980</u>	<u>244,933</u>
Balances end of year	<u>\$ 820,418</u>	<u>294,874</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
299,482	298,607	298,607	875
92,267	94,228	94,228	(1,961)
108,013	82,367	102,367	5,646
1,170	600	600	570
26,123	8,200	8,200	17,923
707,335	1,240,700	2,015,275	(1,307,940)
473,281	440,600	461,000	12,281
22,709	175	175	22,534
<u>1,730,380</u>	<u>2,165,477</u>	<u>2,980,452</u>	<u>(1,250,072)</u>
123,416	104,875	142,136	18,720
160,987	242,261	250,545	89,558
68,578	55,800	63,190	(5,388)
8,739	1,600	5,825	(2,914)
146,927	115,650	222,400	75,473
39,322	42,975	43,100	3,778
1,442,972	1,450,875	43,100	(1,399,872)
436,758	434,640	423,570	(13,188)
<u>2,427,699</u>	<u>2,448,676</u>	<u>1,193,866</u>	<u>(1,233,833)</u>
(697,319)	(283,199)	1,786,586	(2,483,905)
<u>864,698</u>	<u>300,000</u>	<u>300,000</u>	<u>564,698</u>
167,379	16,801	2,086,586	(1,919,207)
<u>947,913</u>	<u>665,719</u>	<u>732,398</u>	<u>215,515</u>
<u>1,115,292</u>	<u>682,520</u>	<u>2,818,984</u>	<u>(1,703,692)</u>

City of Adair
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2011

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$1,254,810. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, capital projects, and business type activities functions.

Other Supplementary Information

City of Adair
Combining Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
General Fund
As of and for the year ended June 30, 2011

	General	Emergency	Library
Receipts:			
Property tax	\$ 204,258	5,708	-
Other city tax	33,161	146	-
Licenses and permits	1,170	-	-
Use of money and property	9,592	-	3,563
Intergovernmental	9,629	-	5,781
Charges for services	3,727	-	-
Miscellaneous	10,330	-	206
Total receipts	<u>271,867</u>	<u>5,854</u>	<u>9,550</u>
Disbursements:			
Operating:			
Public safety	103,717	-	-
Public works	126,046	-	-
Culture and recreation	34,732	-	12,691
Community and economic development	8,739	-	-
General government	122,840	-	-
Total disbursements	<u>396,074</u>	<u>-</u>	<u>12,691</u>
Excess (deficiency) of receipts over (under) disbursements	(124,207)	5,854	(3,141)
Other financing sources (uses):			
General obligation note proceeds	33,000	-	-
Operating transfers (in) out	27	-	-
	<u>33,027</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(91,180)	5,854	(3,141)
Cash balances beginning of year	<u>173,578</u>	<u>2,912</u>	<u>223,076</u>
Cash balances end of year	\$ <u>82,398</u>	<u>8,766</u>	<u>219,935</u>

See accompanying independent auditors' report

Schedule 1

<u>Community Building</u>	<u>Cemetery</u>	<u>Total</u>
-	-	209,966
-	-	33,307
-	-	1,170
8,536	638	22,329
-	1,908	17,318
-	-	3,727
-	1,174	11,710
<u>8,536</u>	<u>3,720</u>	<u>299,527</u>
-	-	103,717
-	-	126,046
10,916	10,011	68,350
-	-	8,739
-	-	122,840
<u>10,916</u>	<u>10,011</u>	<u>429,692</u>
(2,380)	(6,291)	(130,165)
-	-	33,000
-	-	27
-	-	<u>33,027</u>
(2,380)	(6,291)	(97,138)
<u>14,644</u>	<u>25,874</u>	<u>440,084</u>
<u>12,264</u>	<u>19,583</u>	<u>342,946</u>

City of Adair
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2011

	Special Revenue		Urban Renewal Tax Increment
	Road Use Tax	Employee Benefits	
Receipts:			
Property tax	\$ -	55,608	-
Tax increment financing	-	-	92,267
Other city tax	-	1,425	-
Use of money and property	-	-	-
Intergovernmental	95,373	-	-
Miscellaneous	-	-	-
Total receipts	95,373	57,033	92,267
Disbursements:			
Operating:			
Public safety	-	19,699	-
Public works	23,411	11,530	-
Culture and recreation	-	228	-
General government	-	24,087	-
Debt service	-	-	-
Total disbursements	23,411	55,544	-
Excess (deficiency) of receipts over (under) disbursements	71,962	1,489	92,267
Other financing sources (uses):			
Operating transfers in (out)	-	-	(90,107)
Net change in cash balances	71,962	1,489	2,160
Cash balances beginning of year	(25,652)	32,421	(2,160)
Cash balances end of year	\$ 46,310	33,910	-
Cash Basis Fund Balances			
Nonspendable – cemetery perpetual care	\$ -	-	-
Restricted for other purposes	46,310	33,910	-
Total cash basis fund balances	\$ 46,310	33,910	-

See accompanying independent auditors' report

City of Adair
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Equipment	Jan 24, 2001	5.00 %	\$ 58,250
Street improvement	Aug 15, 2007	4.60 %	250,000
Property	Jul 18, 2008	6.50 %	50,410
Storm sewer improvement	Nov 9, 2010	4.50 %	75,000
Equipment	May 25, 2011	2.50 %	33,000
Total			
Revenue notes:			
Sewer	Jun 30, 2003	3.00 %	\$ 924,000
Water refunding	Apr 5, 2004	5.00 %	180,000
Sewer	Jun 10, 2009	0.00 %	50,000
Sewer	Jun 10, 2009	3.00 %	235,080
Sewer	Feb 16, 2011	3.00 %	1,250,000
Total			

See accompanying independent auditors' report

Debt Service	Permanent Cemetery Perpetual Care	Total
33,908	-	89,516
-	-	92,267
862	-	2,287
-	30	30
-	-	95,373
-	391	391
<u>34,770</u>	<u>421</u>	<u>279,864</u>
-	-	19,699
-	-	34,941
-	-	228
-	-	24,087
39,322	-	39,322
<u>39,322</u>	<u>-</u>	<u>118,277</u>
(4,552)	421	161,587
<u>-</u>	<u>-</u>	<u>(90,107)</u>
(4,552)	421	71,480
<u>11,018</u>	<u>28,031</u>	<u>43,658</u>
<u>6,466</u>	<u>28,452</u>	<u>115,138</u>
-	28,452	28,452
<u>6,466</u>	<u>-</u>	<u>86,686</u>
<u>6,466</u>	<u>28,452</u>	<u>115,138</u>

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
7,767	-	7,767	-	306	-
156,250	-	23,847	132,403	7,403	-
44,794	-	4,163	40,631	2,789	-
-	48,348	-	48,348	-	-
-	33,000	-	33,000	-	-
<u>208,811</u>	<u>81,348</u>	<u>35,777</u>	<u>254,382</u>	<u>10,498</u>	<u>-</u>
648,000	-	41,000	607,000	19,440	-
59,470	-	20,000	39,470	2,910	-
7,385	-	-	7,385	-	-
225,840	9,240	235,080	-	2,331	-
-	1,114,091	92,400	1,021,691	-	-
<u>940,695</u>	<u>1,123,331</u>	<u>388,480</u>	<u>1,675,546</u>	<u>24,681</u>	<u>-</u>

City of Adair
Bond and Note Maturities
June 30, 2011

Year Ending June 30,	General Obligation Bonds and					
	Street Improvement		Property		Storm Sewer Improvement	
	Issued Aug 15, 2007		Issued Jul 18, 2008		Issued Jan 24, 2001	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.60 %	\$ 25,449	6.50 %	\$ 4,363	4.50 %	\$ 5,300
2013	4.60 %	26,633	6.50 %	4,646	4.50 %	6,500
2014	4.60 %	27,872	6.50 %	4,959	4.50 %	6,500
2015	4.60 %	29,169	6.50 %	5,287	4.50 %	6,900
2016	4.60 %	23,280	6.50 %	5,636	4.50 %	7,300
2017	-	-	6.50 %	6,005	4.50 %	7,700
2018	-	-	6.50 %	6,404	4.50 %	8,100
2019	-	-	6.50 %	3,331	4.50 %	48
		<u>\$ 132,403</u>		<u>\$ 40,631</u>		<u>\$ 48,348</u>

Year Ending June 30,	Revenue Notes					
	Sewer		Water Refunding		Sewer	
	Issued Jun 30, 2003		Issued Apr 5, 2004		Issued Jun 10, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	3.00 %	\$ 43,000	5.00 %	\$ 20,000	3.00 %	\$ 7,385
2013	3.00 %	44,000	5.00 %	19,470	-	-
2014	3.00 %	45,000	-	-	-	-
2015	3.00 %	47,000	-	-	-	-
2016	3.00 %	48,000	-	-	-	-
2017	3.00 %	50,000	-	-	-	-
2018	3.00 %	51,000	-	-	-	-
2019	3.00 %	53,000	-	-	-	-
2020	3.00 %	54,000	-	-	-	-
2021	3.00 %	56,000	-	-	-	-
2022	3.00 %	57,000	-	-	-	-
2023	3.00 %	59,000	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
		<u>\$ 607,000</u>		<u>\$ 39,470</u>		<u>\$ 7,385</u>

See accompanying independent auditors' report

Notes

Interest Rates	Amount	Total
2.50 %	\$ 10,728	\$ 45,840
2.50 %	10,998	48,777
2.50 %	11,274	50,605
	-	41,356
	-	36,216
	-	13,705
	-	14,504
	-	3,379
	<u>\$ 33,000</u>	<u>\$ 254,382</u>

Sewer		
Issued Feb 16, 2011		
Interest Rates	Amount	Total
3.00 %	\$ 22,000	\$ 92,385
3.00 %	48,000	111,470
3.00 %	49,000	94,000
3.00 %	51,000	98,000
3.00 %	52,000	100,000
3.00 %	54,000	104,000
3.00 %	56,000	107,000
3.00 %	58,000	111,000
3.00 %	60,000	114,000
3.00 %	62,000	118,000
3.00 %	64,000	121,000
3.00 %	66,000	125,000
3.00 %	68,000	68,000
3.00 %	70,000	70,000
3.00 %	72,000	72,000
3.00 %	75,000	75,000
3.00 %	77,000	77,000
3.00 %	17,691	17,691
	<u>\$ 1,021,691</u>	<u>\$ 1,675,546</u>

City of Adair
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants – Public Assistance			
(Presidentially Declared Disasters)	97.036	FEMA-1763-DRIA	\$ <u>1,864,826</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Adair. The City of Adair's financial statements are presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Adair



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

January 21, 2012

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund of the City of Adair, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 21, 2012. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditors' Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Adair's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Adair's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Adair's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

Continued...

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City of Adair
Independent Auditors' Report on
Internal Control and Compliance

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement on the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Adair's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Adair's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Adair's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Adair and other parties to whom the City of Adair may report including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

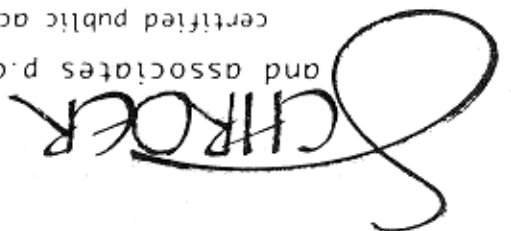
We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Adair during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P.C.

Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

certified public accountants

and associates p.c.



January 21, 2011

Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

We have audited the City of Adair, Iowa's, compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Adair's major federal program for the year ended June 30, 2011. City of Adair's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Adair's management. Our responsibility is to express an opinion on City of Adair's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Adair's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Adair's compliance with those requirements.

In our opinion, City of Adair complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Continued...

City of Adair
Independent Auditors' Report on
Compliance over Each Major Program

Internal Control Over Compliance

The management of City of Adair is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Adair's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Adair's internal control over compliance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the City's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

City of Adair's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Adair's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Adair and other parties to whom the City of Adair may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Schroer & Associates, P.C.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part I: Summary of the Independent Auditors' Results:

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 97.036 – Disaster Grants – Public Assistance.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Adair did not qualify as a low-risk auditee.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- Receipts – collecting, depositing, journalizing and posting
- Utilities – preparing billings, collecting, assessing penalties, depositing and posting payments to customer accounts and recording payments in the City's utility system
- Library – depositing, warrant writing, posting and reconciling
- Financial records – depositing, reconciling and financial reporting

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Library should review control procedures to obtain the maximum internal control possible under the circumstances. In addition, City Council members should review financial records and examine supporting documentation for accounting records on a periodic basis.

Response – We will review our procedures.

Conclusion – Response accepted.

II-B-11 Separate Records

Comment – The library board maintains the accounting records pertaining to the operations of the library. These transactions and the resulting balances are not recorded in the Clerk's records as required by Code of Iowa Chapter 384.20.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that, "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." An accounting system for each board which will provide the necessary and required financial information should be implemented immediately to comply with this code requirement. For better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be reviewed at the transaction level and recorded in the Clerk's records.

Response – The City shall request from all boards that they submit monthly, and at a minimum, quarterly reports to the City so that the financial activity of each board can be recorded in the Clerk's records.

Conclusion – Response accepted.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part II: Findings Related to the Financial Statements - Continued:

INTERNAL CONTROL DEFICIENCIES:

II-C-11 Reconciliation of Utility Billings, Collections and Delinquencies

Comment – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will implement procedures.

Conclusion – Response accepted.

II-D-11 Disbursements

Comment – During our review of City's disbursements the following were identified:

- Several disbursements were not approved by the City Council
- One invoice was not cancelled
- The third quarter sales tax report was not filed and other sales tax payments were missing documentation

Recommendation – All City disbursements should be approved by the City Council and cancelled upon payment. All original documentation should be maintained by the City to support disbursements made.

Response – We will do this.

Conclusion – Response accepted.

II-E-11 Monthly Financial Reports

Comment – There was no evidence that monthly financial reports detailing receipts, disbursements and fund balances by fund with comparisons to budget were provided to the City Council.

Recommendation – Monthly reports should be prepared and submitted to the Council for its review and approval. Comparisons to budget should be included in the financial reports to provide better control over budgeted disbursements and provide an opportunity for timely amendments to the budget.

Response – We will provide these reports to the Council.

Conclusion – Response accepted.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part II: Findings Related to the Financial Statements - Continued:

INTERNAL CONTROL DEFICIENCIES:

II-F-11 Financial Reporting

Comment – During the audit, we identified a material amount of property tax and other receipts misposted to the General Fund. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Recommendation – The City should implement procedures to ensure receipts are properly recorded in the City's financial statements.

Response – We will double check this to avoid posting errors in the future.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Pass-through Agency Number: FEMA-1763-DRIA

Federal Year: 2011

U.S. Department of Homeland Security

Passed through the Iowa Department of Public Defense

III-A-11 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See II-A-11.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

IV-A-11 Certified Budget

Comment – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the culture and recreation, community and economic development, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do this.

Conclusion – Response accepted.

IV-B-11 Entertainment Expense – We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jim Zimmerline, Council Member		
Owner of Jim’s Lawn Care	Contract services	\$ 24,128

The transaction with the Council Member does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

- IV-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Council Minutes

Comment – We found several disbursements that we believe should have been approved in the Council minutes but were not. Copies of minutes were available, but not all official minutes were properly signed in accordance with Chapter 380.7 of the Code of Iowa.

Although minutes for council proceedings were published, they were not always published within 15 days of the meeting, and did not include a summary of receipts and disbursements by fund, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should monitor procedures to insure all claims are properly approved. All minutes should be published timely along with a summary of receipts and disbursements by fund. All minutes should be signed.

Response – We will review our procedures and make the publications as required.

Conclusion – Response accepted.

IV-G-11 Deposits and Investments

Comment – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy. However, the City did not list the maximum authorized amounts in its depository resolution.

Recommendation – The City should amend its depository resolution to include the maximum amounts authorized for each depository used.

Response – We will do this.

Conclusion – Response accepted.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

IV-H-11 Revenue Notes

Comment – The Sewer Enterprise Fund net receipts for the year ended June 30, 2011, were insufficient to cover debt service. The City has not established a sewer revenue note sinking account as required by the provisions of the sewer revenue not resolution.

Recommendation – The Sewer Bond Resolution requires that rates be sufficiently set to fund the operations of the Sewer Enterprise Fund and service debt requirements. The City should review alternatives to meet this requirement. The City should establish the sinking account and make the monthly transfers required.

Response – We will review alternatives including a possible rate increase. We will establish the required sinking account.

Conclusion – Response accepted.

IV-I-11 Investment Income

Comment – Interest on the cemetery perpetual care checking account was recorded in the cemetery perpetual care fund.

Recommendation – In accordance with Chapter 566.16 of the Code of Iowa, the interest should be recorded in the cemetery operations fund. The accumulated interest should be transferred.

Response – We will do this.

Conclusion – Response accepted.

IV-J-11 Excess Balances

Comment – The cash balances in the Special Revenue Fund, Local Option Sales Tax Account at June 30, 2011 was in excess of the disbursements made from the fund during the year.

Recommendation – The City should consider the necessity of maintaining the excess balance.

Response – We will review this further. These funds are to be used for street construction projects only.

Conclusion – Response accepted.

City of Adair
Schedule of Findings
Year ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

IV-K-11 Credit Card Usage

Comment – The City has credit cards for use by City employees for City business. The City has not adopted a formal policy to regulate the use of credit cards.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We will do this.

Conclusion – Response accepted.

City of Adair
Corrective Action Plan for Federal Audit Findings
Year Ended June 30, 2011

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-11	Segregation of Duties over Federal Receipts	The corrective action plan was documented in our response to the auditors' comment. See the Schedule of Findings and Questioned Costs.	Michelle King, City Clerk 641-742-3751	March 31, 2012